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UNCLAS SECTION 01 OF 02 PRETORIA 002238

SIPDIS

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TAGS: KTEX ECON ETRD SF USTR
SUBJECT: LABOR UNIONS TURN TO RETAILERS TO SAVE THE SOUTH AFRICAN APPAREL AND TEXTILE INDUSTRY

REF: (A) PRETORIA 1365; (B) PRETORIA 448

¶1. Summary. According to South African industry representatives, China currently holds 86% of the apparel market for imports in South Africa. Unions blamed increased imports for contributing to job losses of up to 40 000 in the apparel and textile industry. The Congress of South African Trade Unions (Cosatu) has called on South African retailers to sign a code of conduct, with the labor union, to set a target of 75% local content for clothing products on shelves. Retailers rejected this gross interference in the competitive dynamics of the supply chain and have blamed the strength of the rand, illegal import activity, and the inability of industry to cope with modern consumer demands for the industry falling behind international competitors. South African apparel and textile exports to the United States declined by 30% during the first quarter of 2005. End Summary.

¶2. According to the clothing and textile industry, cheap Chinese imports remain one of the biggest problems facing the apparel and textile industry in South Africa. Helena Claasen, economist at the Textile Federation, said Chinese clothing imports grew by 394% since 2001 and China currently holds 86% of the clothing market for imports in South Africa. According to the Congress of South African Trade Unions (Cosatu), this has contributed to job losses of up to 40 000 in the South African clothing and textile industry from January 2003 to March 2005. Industry complains that retailers pressure local manufacturers to reduce prices and frequently use examples of offers of cheaper imports to exert further downward pressure.

¶3. Industry representatives assert that unlike in the United States and the European Union, the South African clothing and textile industry has not, up to now, made use of any of the WTO measures available for protection. According to Jack Kipling, president of CloTrade and chairman of the Export Council for the Clothing Industry in South Africa, safeguard measures under the China protocol would be the most suitable of all WTO measures available to the industry. He noted, however, that, because the surge in imports already commenced in earnest in 2001,and the controls are based on the average of imports over the past three years plus a 7% per annum normal growth, the base is already too high for these measures to be effective. Industry regards the safeguards and anti-dumping application process to be too complex, time consuming and costly to bring any speedily relief to the industry. Alec Erwin, Minister of Public Enterprises, indicated that the South African government does not intend taking measures to curb cheap Chinese apparel and textile imports.

¶4. In an effort to save the industry from shedding more jobs, the labor union, Cosatu, called on South African retailers to sign a code of conduct with the labor union, to set a target of 75% local content for clothing products on shelves. Zwelinzima Vazi, Cosatu's general-secretary has threatened mass action to enforce the proposed code of conduct, which could include pickets of retailers and shopping malls, human chains, sit-ins, boycotts of foreign goods and mass attendance of annual general meetings of all retailers. The National Economic Development and Labor Council (NEDLAC) has given COSATU the go-ahead to give clothing retailers a 14-day notice, to indicate the start of a programme of mass action. In addition, COSATU has called on the government to take safeguards measures against imports. Another complaint is that the Sector Education and Training Authority (SETA) for the textiles sector is not providing adequate training for workers, and consequently the higher quality textiles with greater value-added cannot be produced here.

¶5. South Africa's major clothing retailers, Foschini, Truworths, Woolworths and Edgars Consolidated Stores, issued a statement on May 16, 2005 rejecting calls by the labor union to sign a code committing them to prescribed local procurement targets. They regard it as a gross interference in the competitive dynamics of the supply chain, which would

have a negative effect on consumers, retail business, and the South African economy. They feel that the local South African clothing industry does not have the capacity to meet 75% of all local retail requirements when it comes to the variety, volumes and prices as currently demanded by the South African consumers. South African retailers said, however, said that they were still committed to the local industry, and would continue to source locally, but would not commit to local procurement quotas.

¶6. Retailers highlighted the following issues as the main reasons for the industry falling behind their international competitors. First, the strength of the rand over the past three years. Second, illegal import activity and import under valuation. Third, the inability to cope with modern consumer demands.

Illegal imports

¶7. In an effort to reduce and eliminate illegal imports and transshipment, the Minister of Trade and Industry published regulations that prohibit the importation into or the sale of textiles, clothing, shoes and leather goods in South Africa, unless it is labeled in such a way that it is clear in which country the goods were produced. These regulations came into force on May 23, 2005. South Africa now also complies with a national control system to monitor compliance to country of origin rules. Retailers indicated they welcomed the country of origin labeling scheme and fully supported it.

Rand strength

¶8. There is increased support for the idea that government should act to weaken the rand. Ian Plenderleith, Deputy Governor of the Reserve Bank, stated that the rand's gains against the dollar in the past 6 months were unwelcome and hurting exporters. The African National Congress (ANC) also called for a more competitive exchange rate to support the apparel and textile industry. The rand has, since these remarks were made, lost value to the US Dollar and traded at R6.63/$ on May 30, down on the R6.34/$ two weeks earlier. Marisa Fassler, economist at JP Morgan said that attempts by policy-makers over the past two years to jawbone the currency weaker have largely been futile. She said that the recent calls for a more competitive exchange rate coincided with a sharp rally in the dollar and that the movements in the currency markets should remain the dominant driver for the value of the rand. Trevor Manuel, South African Minister of Finance, raised serious concern about adopting an official policy to defend a particular level of the rand exchange rate. Lionel October, deputy director-general at the Department of Trade and Industry, said that from an industrial policy point of view, a competitive exchange rate is important, but should not be the basis for a competitive strategy, rather there should be focus on finding niche markets for South African products.

¶9. The latest United States International Trade Commission (USITC) statistics indicate that South African apparel and textile exports to the United States declined by 30% during the first quarter of 2005. Jack Kipling acknowledged in an article for Business report that the situation in which the clothing industry in South Africa finds itself can be attributed directly to the effects of globalization and trade liberalization. He explained that the clothing industry is the most global of all manufacturing sectors, extremely competitive and price sensitive and therefore the first sector to feel the effects of globalization.

FRAZER